

ACCOUNTING

Time allowed – 2 hours

Total marks – 100

[N.B. – The figures in the margin indicate full marks. Questions must be answered in English. Examiner will take account of the quality of language and of the manner in which the answers are presented. Different parts, if any, of the same question must be answered in one place in order of sequence]

- | | Marks |
|---|-------|
| 1. (a) How would you adjust profit for errors, if required? | 3 |
| (b) What are the major factors considered in determining what depreciation method to use? | 3 |
| (c) Define 'Unearned Revenue' with an example. What are the mandatory conditions to transfer unearned revenue to earned income? | 4 |
| (d) Define Accrual Basis of Accounting. How it impacts in preparing financial statements at any given point in time. | 4 |
| (e) What is Deferred Expenditure? How does an accountant misuse this concept? | 3 |

2. Mr. Islam is a sole trader who has provided his accountant with the following accounts balances of M/S. Islam Enterprise as at 31 December 2016:

<u>Heads of account</u>	<u>Taka</u>	<u>Heads of account</u>	<u>Taka</u>
Sales	2,500	Mr. Hussein (supplier)	950
Bank	3,750	Discount allowed	70
Purchases	1,700	Discount received	90
Mr. Hassan (customer)	790	VAT owing to NBR	1,340

The following transactions took place during January 2017. VAT is levied at 15%.

January 2	Sales to Mr. Hassan on credit Tk.600 plus VAT.
January 3	Purchases from Mr. Hussein Tk.400 plus VAT.
January 8	A credit note was sent to Mr. Hassan for goods returned of Tk.150 inclusive VAT.
January 9	A credit note was received from Mr. Hussein for Tk.100 inclusive of VAT.
January 14	Mr. Hassan pays Mr. Islam Tk.1,250 by cheque in full settlement of his account; the remainder being treated as a discount.
January 19	Mr. Islam pays Mr. Hussein by cheque Tk.1,300 in full settlement of his account with anything remaining to be treated as a discount.
January 26	Mr. Islam takes Tk.200 out of the bank account for his own personal use.
January 31	Mr. Islam pays NBR (Revenue and Customs) for the amount owing as at 31 January 2013.

Required:

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|---|----|
| (a) Record all the transactions for January 2017. | 10 |
| (b) Open the ledger balances as at 1 January with the opening balances and record the above transactions in the bank, customer, supplier and VAT ledger accounts for the month of January 2017. | 10 |
3. Jahan enterprise started working with a one-year accounting period that ends on 31 December 2016. Jahan's extract of trial balance as on 31 December 2016 was as follows:

<u>Account Name</u>	<u>Taka</u>	<u>Account Name</u>	<u>Taka</u>
Supplies	2,500	Salaries expense	4,000
Pre-paid insurance	4,800	Accounts payable	42,900
Equipment	40,000	Unearned revenue	8,400
Note receivable	15,000	Service revenue	15,000

- 1) On 31 December 2016 employees took a physical count of the supplies in stock. That physical count reveals a closing stock of supplies amounting to Tk.1,200.
- 2) On 31 August 2016, Tk.4,800 was paid for a two-year insurance policy.
- 3) On 1 April 2016, the company acquired equipment of Tk.40,000 for cash. Management expects to use the equipment for 8 years on straight line basis with no salvage value.
- 4) On 25 July 2016, Jahan signed a service contract with a client and the client pays Tk.8,400 cash. The contract states that Jahan will provide monthly services for 12 months, beginning on 1 August 2016.
- 5) On 31 December 2016, the accountant questions the managers and discovers that revenue of Tk.12,500 has been earned (the services have been provided) but the clients have not yet been billed.

- 6) On 1 October 2016, the company provides services of Tk.15,000 to a client. The client will not be able to pay for the services until 1 April 2017. Thus, the client signs a promissory note for 6 months. The note bears 6% annual interest.

Required:

- (a) Analyze the effects of the preceding transactions on the accounting equation of Jahan Enterprise and prove the equality of the equation. 8
(b) Prepare necessary adjustment entries. 6
(c) Complete an adjusted trial balance from the data provided. 6

4. The Bank Column of Cash Book of Tom & Co shows a debit balance of Tk.1,050 as on 30 June 2017. However, according to Bank Statement the balance was overdrawn. On investigation you find the following:

- The receipt column of Cash Book has been overstated by Tk.1,100
- Cheque drawn and entered in the Cash Book in June 2017 amounting to Tk.1,670 was not presented until July, 2017.
- Discount received from a supplier of Tk.100 had been included with the cheque entered in the Bank column of the Cash Book in April 2017.
- An amount of Tk.750 paid directly into Tom's account by a customer not entered in the Cash Book.
- A cheque payment of Tk.1,230 in April 2017 had been entered in the Cash Book as Tk.1,320.
- The Bank had charged the business account with a cheque for Tk.2,200 in February 2017, which should have been passed through owners private account.
- Bank Charges of Tk.80 at 31 December 2016 and Tk.100 at 30 June 2017 had not yet been entered in The Cash Book.
- Cheque to the value of Tk.3,780 received from the customers were recorded in the Cash Book on 28 June 2017 but not entered by the bank until 2 July 2017.

Required:

Prepare the adjusted Cash Book and Bank reconciliation statement.

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5. The following ledger balances relates to M/S. Ibrahim Limited as at 30 June 2017:

<u>Ledger balances</u>	<u>Taka</u>	<u>Ledger balances</u>	<u>Taka</u>
Inventory at 1 July 2016	4,875,000	Accounts payables	4,665,000
Cash and bank balances	250,000	Sales	23,250,000
Accounts receivable	4,550,000	Other income	1,062,500
Purchases	12,700,000	10% Borrowings (bank loan)	2,000,000
Office and administrative expenses	1,625,000	Revaluation reserve	1,750,000
Salary and allowances (office)	687,500	Retained earnings	2,825,000
Selling and distribution expenses	1,540,000	Acc. depreciation - plant and equipment	2,250,000
Wages and allowances	625,000	Provision for bad debts	250,000
Other direct expenses	1,165,625	General reserve	706,250
Investment in fixed deposit	750,000	Bank overdraft	575,000
Land at valuation	7,125,000	Gratuity payable	109,375
Plant and equipment at cost	4,500,000	Share capital of Tk. 10 each	2,000,000
Intangible assets	1,050,000		

The following additional information should also be considered:

- 1) Inventory at the end of year is Tk.3,020,000.
- 2) The company depreciates plant and equipment @ 10% straight line basis. Land is revalued every two years. A valuation has just been carried out, showing that it has increased in value by Tk.450,000. An impairment review of intangibles has shown that Tk.105,000 should be written off.
- 3) The receivable of Tk.180,000 from a customer should be written off as irrecoverable, and the provision for bad and doubtful debts should be increased to Tk.300,000.
- 4) Borrowings are payable in 8 yearly installments. First installment will be due and paid on 1 July 2017.
- 5) A 10% dividend was declared and approved during the year but not yet paid. Corporate tax rate is 35%.

Required:

- (a) Prepare the Statement of Comprehensive Income for the year ended 30 June 2017 13
(b) Prepare the Statement of Financial Position as at 30 June 2017. 15